

## The Case for Pursuing Sustainable Public Procurement in Lower Income Countries

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Written by Oshani Perera.

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## The Context

Sustainable Public Procurement (SPP) is about governments using their purchasing power to provide leadership for sustainable development. It is a policy that industrialised nations have been implementing incrementally for over 10 years and the outcomes are demonstrating its potential to transform markets and serve as an incentive for sustainable industrial growth. From sustainable timber to resource efficient buildings, from green roads to sustainable electronics, governments have succeeded in using the public purse to provide industries, especially domestic industries, with a much needed incentive to invest, innovate and commercialise sustainable products and services. Moving forward, through pre-commercial procurement<sup>1</sup>, first commercial procurement<sup>2</sup>, procurement of innovation<sup>3</sup> and through model product/service checklists, the European Union, Japan, South Korea, and the United States are increasingly positioning procurement as a trigger for innovation and to bring better “value for money” for the public sector while creating market opportunities for domestic industries.

SPP also faces momentous opportunities as lower income countries (LICs) look to this policy both as a driver of sustainable growth, but also as an indicator that political risks are under control, institutional capacities are on the rise and the overall domestic investment environment is coming of age. And the global policy debate is responding to this interest. The UNCITRAL model law on Public Procurement (2011) includes provisions on environmental and social criteria, while the WTO Government Procurement Agreement similarly provides for procurement decisions to be based on environmental and social sustainability. SPP is also an ‘enabling condition’ of the Green Economy policy debate that lower-income countries are working to deliver on. But to ensure that SPP policies meet these new challenges, stakeholders need to revisit the lessons learnt to date and use them to address SPP policies in the light of global trade and capital market dynamics, natural resource wars, competition for foreign direct investment, and the continuous need to innovate, re-skill and up-skill for continued competitiveness.

This paper begins to track a part of this picture.

## Lessons and their Implications

### *SPP is a practical policy instrument given that procurement is an activity that all governments undertake*

All governments have to purchase goods, provide public services and commission infrastructure and works. In low-income countries (LICs), policy makers might use funds from donors to perform these purchases, but procurement remains a core public sector function. Moreover, in LICs, there is added urgency for expanding public services and this presents early opportunities to raise institutional and industrial development capacities in a very real manner. SPP offers LICs the opportunity to ‘get it somewhat right’ by using an already existing process and realise the macro benefits which include creating sustainable supply chains, building skills on eco efficiency, ensuring decent work and social cohesion, increasing employment and more.

<sup>1</sup> Pre commercial procurement is when government purchase R&D services or solutions for products and technologies that are not yet commercially available. Pre-commercial procurement enables public procurers to: a) share the risks and benefits of designing, prototyping and testing new products and services with the suppliers; b) create the optimum conditions for wide commercialisation and take-up of R&D results; c) pool the efforts of several procurers to enable economies of scale.

<sup>2</sup> First Commercial Procurement is when government purchase newly developed products, services and solutions, where prototypes have been tested, but have not yet been commercialised. The Government acts as a first time buyer to share the risks, with the private sector, for market penetration and first time commercialisation

<sup>3</sup> Procurement of innovation is when the public sector commissions R&D to meet longer term social, environmental and technological needs. Typically such research is not, at this point, directed at a commercial product or service.

***SPP presents scaled-up and long-term demand for sustainable goods, services and infrastructure and thus serves as an incentive for sustainable industrial development***

Public procurement involves a range of industries including those that are target sectors for domestic industrial development and foreign direct investment. Therefore, when the public sector seeks out sustainable products/services, it provides markets with the much needed certainty and serves as an incentive to both foreign and domestic investors, signaling that the demand for 'sustainable' is present and rising.

To provide an insight into the values, volume and diversity that the public purse represents, the tables below show data on public procurement as a percentage of GDP and document the areas of frequent government spend.

| PROCUREMENT AS A PERCENTAGE OF GDP (APPROXIMATE) |     |
|--|-----|
| EU   | 17% |
| USA  | 18% |
| South Africa                                     | 32% |
| India  | 36% |
| Mauritius  | 36% |
| Brazil   | 32% |
| Chile  | 37% |
| Vietnam  | 43% |
| Ghana  | 45% |
| China  | 58% |
| UAE  | 33% |
| Swaziland  | 65% |
| Timor-Leste, Sierra Leone, Uganda                | 70% |

Source: EU, IISD, AusAID and OECD, 2012

| AREAS OF FREQUENT GOVERNMENT EXPENDITURE          |  |   |
|---|--|---|
| PRODUCTS  | SERVICES                               | WORKS   |
| Air conditioning                                  | Management and IT consultancy services | Commercial buildings  |
| Office information and communication technologies | Landscaping                            | Residential buildings   |
| Vehicles  | Software                               | Airports, ports and railway stations                            |
| Indoor and outdoor lighting                       | Servers and data centres               | Correctional facilities   |
| Paper   | Electricity                            | Power plants and distribution grids                             |
| Office supplies                                   | Couriers and postal                    | Roads and railroads   |
| Fuel  | Fleet and vehicles                     | Municipal solid waste and hazardous waste management facilities |
| Furniture   | Waste handling                         | Water and wastewater treatment facilities                       |
| Apparel   | Catering: food and beverage            | Schools   |

Examples on how SPP influences the scaling and competitiveness of industries can be found when examining the experience of Europe and the USA. In Europe, markets for recycled packaging, sustainable timber, energy-efficient lighting, recycled paper to name just a few, began when the 'green-7' countries<sup>4</sup> started to include environmental criteria in procurement decisions. Indeed, the need for European eco labels such as the Blue Angel, the EU flower, the Nordic Swan and the Green Dot (Der Grüne Punkt) came about given that large volume public sector buyers were ready to provide early demand for environmentally preferable products produced by European companies. Similarly in the USA, the Federal Electronics Challenge (initiated by Former President Bill Clinton, in his first term in office), began to encourage federal facilities to purchase 'greener electronics'. The processes include lengthy dialogue with US headquartered electronics companies including HP, Dell, IBM (now Lenovo), Motorola, and GE. This was one of the very first incentives for environmentally preferable IT and electronics. The Executive Order No 13,432 under President Bush required that all federal facilities buy only EPEAT certified electronic goods and today, the Federal Acquisition Regulations and the Executive Order 13,514 under President Obama, require the purchase of not only sustainable electronics but a number of other more sustainable goods and services as well.

In the case of LICs, the experience of Sao Paulo, Brazil provides evidence on how government purchasing power can influence domestic industrial scaling and sustainable competitiveness. Details are documented in the IISD policy brief and case study entitled 'Sustainable Public Procurement in the Sao Paulo State Government' posted at <http://www.iisd.org/publications/pub.aspx?pno=1644>.

### *Does SPP crowd-in or crowd-out domestic businesses?*

Many stakeholders have expressed concern that in lower income countries, SPP can crowd-out domestic businesses as they will not be able to meet the environmental and social criteria incorporated in 'sustainable tenders'.

This argument may be valid when SPP policies and programmes do not allow for adequate market consultation and lead time both when launching SPP policies/programmes and when designing pilot tenders.

Suppliers need to be informed well in advance that SPP policies are in the pipeline and that future tenders are likely to include environmental and social criteria. Lead time is essential to provide companies with the time to upgrade and seek out solutions to meet these new demands in a cost- effective manner.

Similarly, when SPP plans are on the drawing board, market consultation is imperative to assess the willingness and capacity of the private sector to invest and upgrade. No doubt, the capacity for expanding sustainable supply chains across the domestic economy cannot be triggered by SPP alone – a number of complimentary programmes are needed to build capacities in eco efficiency and decent work and to provide affordable access to credit and finance. But SPP can provide effective leadership and increase the momentum for ongoing donor programmes on domestic industrial development.

To demonstrate the above, we can consider the case of India, when the Ministry of Environment, in 2010, invited the private sector to develop the first draft of the green product guidelines for 17 products including bricks, textiles and office IT. The project was facilitated by Confederation of India Industry Centre for Excellence on Green Public Procurement and IISD. The objective was to assess levels of performance across Indian supplier firms so that SPP programmes could be designed to encourage continuous improvement and thereby increase sustainable competitiveness across Indian Industries.

<sup>4</sup> The 'green-7' is the term used by the European Commission to refer to the seven countries with a higher level of green public procurement compared to other EU Member States. They are Austria, Denmark, Finland, Germany, Netherlands, Sweden and UK.

In the Province of the Western Cape in South Africa, the private sector was closely associated with the development of SPP tools and model product specifications in 2009. Again, the objective was to crowd- in domestic enterprises. Almost four years of lead time was provided before the launch of first tenders which included baseline environmental performance aspects in award criteria, with the first tender beginning in 2011<sup>5</sup>.

In Chile, ChileCompra, the government procurement platform, decided to delay the launch of tenders that included environmental criteria given that the domestic private sector was not likely to be able to comply in the immediate term. Instead, they began to implement SPP by introducing social performance conditions and preferential purchasing programmes for Small and Medium Enterprises (SMEs). In this way, ChileCompra minimised risks by building on the work of the Ministry of Labour and their SME support programme. Plans to introduce environmental criteria were scheduled for 2011<sup>6</sup>.

In Vietnam, in 2012, when the Ministry of Education launched a tender for sustainably and legally harvested timber, consultations were held with suppliers across the country. (The impetus was that Vietnamese policy makers wanted to demonstrate accordance to the EU Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreement. Most suppliers were not able to show proof of compliance, but they were willing to obtain the necessary Certificates of Origin, if the government could assure them that future tender for timber and timber products would also carry the same conditions. They estimated that a lead time of 16 months would be required at a minimum. The Ministry of Education decided to therefore include proof of legal harvesting as optional award criteria (for which compliant suppliers would be awarded extra points). At the time of writing, the Vietnam Ministry of Natural Resources and the Environment are drafting a dedicated law on SPP to provide legal certainty to include such provisions in technical specifications moving forward.

### ***Crowding-in domestic enterprises by using specifications, award criteria and contract performance conditions***

SPP programmes can be designed to better crowd-in domestic industries, by incrementally increasing the focus on environmental and social performance over time. This requires programmes that balance environmental and social requirement across technical specifications (conditions that suppliers are legally required to meet), award criteria (the core conditions on which bids are evaluated as well as the additional conditions on which bidders are granted extra points), and contract performance conditions.

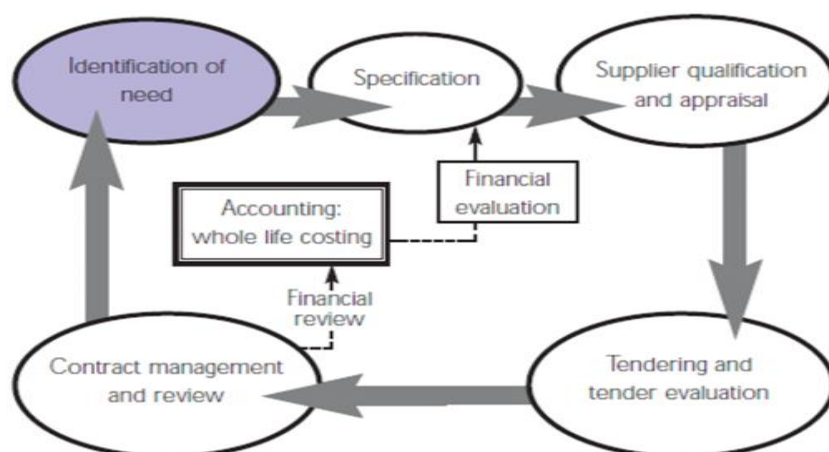
At the early stage of SPP policies, even when lead time is provided to suppliers, policy makers can begin to include environmental and social criteria as 'additional' award criteria, rather than as conditions in technical specifications. Domestic companies will then be able to compete while more proactive suppliers will be granted additional points and hence be rewarded for their efforts. This will limit the extent to which domestic suppliers might be disadvantaged in the early stages of SPP implementation.

The other option is to also include environmentally and socially responsible performance aspects in contract performance. For example, compliance with voluntary environmental and social performance standards, extended producer responsibility obligations and sustainable supply chain management initiatives can be included as contract conditions.

<sup>5</sup> IISD assisted the Provincial Government of the Western Cape develop its Green Procurement Policy across 2008-09. Related reporting is posted at <http://www.iisd.org/markets/procurement/>

<sup>6</sup> IISD conducted SPP preparedness assessment for Chile, in collaboration with ChileCompra and the Chilean Ministry of Labour in 2009. Related reporting is posted at <http://www.iisd.org/markets/procurement/>

To enable readers to better appreciate the use of specifications, award criteria and contract conditions, the public procurement cycle is presented in the flow-chart below.



Balancing cost and carbon savings during user-life with the higher purchasing prices often associated with sustainable products and services

It is well established that purchasing greener products can help users reduce water and energy consumption as well as lower waste management and maintenance costs. This is especially true in relation to energy and energy related products including refrigeration and lighting appliances and office IT equipment. Incorporating design for environmental aspects into infrastructure will also provide for more user-friendly and more durable assets.

The challenge in LICs is that these products often command higher purchasing prices than their less sustainable alternatives, and procurers are hard pressed to justify the additional spend, even if all or a part of this additional costs can be recuperated in the form of cost savings down the line. Multi-year accounting frameworks (that is further discussed in the point below) are needed to record such savings. These frameworks are not prevalent in most countries (not just in LICs), nor is there widespread public sector expertise in the whole-life costing tools that provides the methodology for calculating monetary environmental gains over the life cycle of assets.

Anecdotal evidence from the EU, Japan, USA, Canada, Brazil and South Korea shows that potential increases in purchasing costs can be mitigated by:

- well directed supplier consultations that will help procurers determine where to set the sustainability performance bar (not too low so as to distort markets but not too high as to crowd out domestic suppliers);
- providing markets with adequate lead times (as discussed earlier in this paper);
- bulk buying to stimulate economies of scale;
- using and establishing central procurement platforms (that can negotiate bulk discounts with suppliers, warehouse large volumes and dispatch smaller quantities to individual entities on demand).

In addition, the use of service contracts is gaining ground all over the world, as is the interest in integrated performance contracts that seek to bundle groups of products into a single service offerings. For example, instead of buying office IT equipment category by category, procurers can opt to purchase a service that will provide not only the hardware, but also the software, server and cloud computing solutions in an integrated package. This reduces purchasing costs for the procurer and prompts suppliers to seek out the most cost and eco efficient solutions. The value added in both service and performance contracts is that the monetary benefits of eco efficiency - reduced operation and maintenance costs - accrue to the supplier, and this perpetuates continuous improvement.

One of the best examples that illustrate the above comes from Sao Paulo Brazil. In a tender for 3,795,015 schools books containing 60% of recycled paper during 2010 and 2011, the State Department of Education was able to use its 'bargaining power' to negotiate a reduction in the purchase price by 3.88% in 2010, and 3.99% in 2011. Moreover, the Department was able to raise the environmental performance bar from 50% recycled pulp (as stipulated by the Brazilian Standard ABNT NBR 15755:2009) to 60% recycled pulp, the tender gave rise to a new commercially viable product for the supplier. Environmental benefits included saving 88,829 cubic metres of water, 1766 tonnes of waste and 241 kg of ore-gano-halogen compounds. In terms of multiplier social gains, this tender is estimated to have provided one month of economic activity for 454 'waste pickers' that collect, separate and sell solid waste for recycling and re-use<sup>7</sup>.

There is also the case of Ghana that is in the process of developing a policy and action plan on SPP. In 2000, the Collaborative Labeling & Appliance Standards Program (CLASP) and Lawrence Berkley National Laboratories (LBNL) joined with the Ghana Energy Foundation to develop the first standards and labels rolled out by the Ghana Energy Authority in 2010. If the public sector begins to purchase labeled goods, LBNL estimates that the savings from the air conditioner standard alone would save consumers an average of \$64 million annually in energy bills and reduce carbon dioxide emissions by about 2.8 million tons over 30 years, saving the equivalent energy of a 150MW generating plant by 2013<sup>8</sup>.

### *To what extent does SPP require multi-year accounting frameworks and procurers with capacities in whole-life costing?*

SPP would certainly stand to gain if procurers had even baseline capacities to calculate the whole-life costs of the products and services that they purchase. Similarly, multi-year accounting frameworks are valuable as they allow procurers and public accountants to show the longer-term monetary gains of sustainable goods and services.

However, as discussed in the point above, multi-year accounting frameworks that allow for "borrowing against the future" are not in place even in most advanced economies (and if they are, they generally provide for a three to five year horizon). In addition, procurers with technical expertise including whole-life costing are hard to come by, even in leading SPP geographies including Europe, Japan, South Korea and the USA. And it will be a missed opportunity to not promote SPP in LICs on the grounds that such frameworks and expertise are not available.

As the Swedish Environmental Council commented to IISD, "procurers come from a variety of backgrounds, from a PhD in history to nursing and child psychology. It is not practical to expect them to have whole-life costing capabilities and this is not needed for implementing SPP. The focus should be on building tools and guidance that are as specific as possible to the local economic context and teaching procurers to make the best use of them"<sup>9</sup>.

<sup>7</sup> UNEP DTIE, The Impacts of Sustainable Procurement, Eight Illustrative Case Studies, 2012, posted at <http://www.unep.fr/scp/procurement/docsres/projectinfo/StudyonImpactsofSPP.pdf>

<sup>8</sup> Direct communication with LBNL and posted at <http://www.clasponline.org/WhyStandardsAndLabeling/StandardsLabelsSuccessStory-Ghana>

<sup>9</sup> Direct Communication, Swedish Environmental Council, 2010.



Moreover, in an assessment of President Obama's Executive Order 13514 on Federal Leadership in Environment, Energy and Economic Performance, the IBM Centre for The Business of The Government points out that longer-term accounting frameworks<sup>10</sup> would have been of value to federal agencies who are seeking to demonstrate the importance of environmental performance and energy efficiency to the ongoing reforms on 'Leaner Government'<sup>11</sup>.

Having said the above, it is important to understand why multi-year frameworks are not in place in LICs and indeed elsewhere. Firstly, such frameworks need visibility in terms of future financing (values and sources) and LICs do not have such visibility, even if they are working with donor funding. Secondly, there are restrictions on where public-agency financing can come from and where it can be allocated, and multi-year frameworks require more flexibility. Thirdly, most public sector economists do not see the value of rewarding agencies that save money, and those entities that do, might well face reduced budgets in the years to follow. Nor do many public accountants see the value for public agencies to 'borrow against the future' i.e. use money they save today, tomorrow. In their view, public funds are for public purposes, and if an entity saved money, that saving needs to go back into the central government budget and be allocated to the next most pressing cause. Fourthly, public accounting keeps capital budgets and operational budgets separate while multi-year accounting and SPP requires some flexibility between the two. These factors collectively hinder the case for multi-year accounting frameworks and the uptake of SPP.

The World Bank developed a dedicated tool, the Medium Term Expenditure Framework (MTEF)<sup>12</sup>, to help public budget holders implement multi-year accounting frameworks, but the effort has had limited success.<sup>13</sup>

## Including social sustainability criteria in SPP

Lead by The Netherlands, Brazil and Switzerland, social sustainability criteria are making their way into SPP and this is of particular relevance to LICs. The Netherlands enacted a dedicated policy to mandate that the public sector show preference to Max Havelaar certified food and beverage products. Of particular relevance in this regard is the 2012 European Court of Justice ruling, in *The Commission vs. North Holland*, in favour of including social consideration in public procurement tenders in award criteria and in contract conditions.<sup>14</sup>

Brazilian States also include social criteria across a broad range of products. In Sao Paulo, technical specifications and contract conditions for pre-qualified suppliers require that full-time and part-time employees as well as contractors are provided with safety material, meal vouchers, uniforms, adhere with State recommended wage scales, obtain full accident insurance coverage and present proof of compliance with legal and Ministry of Labour requirements<sup>15</sup>.

<sup>10</sup> Medium Term Accounting Frameworks in the USA are not available to all agencies, and if they are, they provide for a three to five year horizon. Very few of them provide for 'borrow against the future' and cross-cutting between capital and operational budgets.

<sup>11</sup> Fiorino, D. J. Implementing Sustainability in Federal Agencies: An Early Assessment of President Obama's Executive Order 13514, IBM Centre for The Business of the Government, 2011

<sup>12</sup> The Medium-Term Expenditure Framework (MTEF) of the World Bank is posted at [http://web.worldbank.org/WBSITE/EXTERNAL/ TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTPUBLICFINANCE/0,,contentMDK:20235448-pagePK:148956-piPK:216618-theSitePK:1339564,00.html](http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTPUBLICFINANCE/0,,contentMDK:20235448-pagePK:148956-piPK:216618-theSitePK:1339564,00.html)

<sup>13</sup> Direct Communication, World Bank.

<sup>14</sup> The European Commission brought The Netherlands to the European Court of Justice on the basis of the reference to the Max Havelaar and EKO labels which were required both in technical specifications and award criteria. More information can be found on <http://fairtrade-advocacy.org>

<sup>15</sup> IISD has been working with the State of Sao Paulo providing technical expertise on SPP since 2009. Related reporting is posted at <http://www.iisd.org/markets/procurement/>

## Preferential programmes for SME and Minority Suppliers

One of the most effective places to start implementing SPP in LICs could be on preferential programmes for SMEs and businesses owned by women, disabled persons and minority communities. Brazil and Chile began implementing such programmes around 11 years ago and more recently, the Indian Cabinet approved a policy for preferential public sector purchasing from micro, small and medium enterprises in five Indian States. The policy targets 20% of annual procurement for both central government departments and public sector undertakings (PSUs). The Micro, Small and Medium Enterprises (MSME) Ministry estimates that PSUs alone are likely to purchase goods to the value of Rs 35,000,000 crore (USD 6.3 billion) over the next five years<sup>16</sup>.

Does SPP increase transparency and accountability in public procurement?

Public procurement has long been rife with corruption and cronyism, especially in countries where political stability and institutional capacities are low. Even in more stable economies, the interconnection between private and public interests and the extent to which private sector lobbies influence public policy making, is topic of long and controversial debate.

This said, there are instances where SPP, which by design requires formal and concerted dialogue with suppliers can increase transparency in tender processes. The SPP programmes in the Province of the Western Cape in South Africa and in Sao Paulo, Brazil demonstrate this in practice. Indeed, in both instances, it was the SPP programmes that triggered the public disclosure on award criteria and the use of reverse auctions in the award of tenders. The green public procurement programmes in the EU, the Federal US Government and the US Commonwealth of Massachusetts also report that green public procurement has helped increase disclosure around tender award criteria and tender processes overall.

On the other hand, given that sustainable public procurement calls for closer dialogue with suppliers, it can also increase opportunities for cronyism and opaque decision making. In lower-income countries, if SPP does not allow adequately lead time and tenders are not designed to allow suppliers to incrementally increase their environmental and social performance, SPP may indeed lead to increase instances of manipulation by special interests.

## Where to start SPP

- Selecting which products/services and sectors to focus preliminary efforts is important to maintain the interest and commitment of procurers, suppliers and the political leadership. This will depend on balancing a number of overlapping and sometimes conflicting considerations: the sectors/products/services where government spend represents a large enough market share to influence and transform the market through changes in demand characteristics;
- items and services of significant spend;
- sectors and production processes where environmental and social impacts are high;
- sectors which are of priority for infant and domestic industrial development;
- target sectors for foreign direct investment
- production processes and sectors that are of priority for sustainable development.

<sup>16</sup> Direct Communication with the Confederation of Indian Industry Centre for Excellence on Sustainable Development and the Infrastructure Development Finance Corporation Ltd, September 2012. Press release posted at <http://indiamartknowledge.blogspot.fr/2011/11/cabinet-gives-green-signal-to-public.html>

Determining the optimum balance is challenging and all government grapple with limitations in the availability and accuracy of 'hard data' on which to base these decisions. In the case of South Africa, the decision was made to focus on energy efficiency (to tie in with national programmes on the same) and 'green IT' given that the Province of the Western Cape was seeking to increase investment in IT assembly and business process outsourcing services. In India, areas of significant spend was the key determinant. In Vietnam, when a tender for legally harvested timber was selected as a pilot, the decision was based on high spend, high environmental impact and the interest to participate an international voluntary programme (EU FLEGT).

## Public finance management reform sequencing and its relevance to SPP

All public procurement systems require given levels of competence in public financial management, and international donors have rightly made this a priority area of work in LICs. Development banks have been working to implement tiered approach to public financial management for some time.

The challenge over the past 20 years is that these reforms have not been all that successfully implemented, and the World Bank is now determining further action and holding country consultations to this end. This was confirmed to IISD, in our consultations with the World Bank Headquarters in Washington DC as well as with the country offices in Ghana and Sri Lanka. This was also confirmed to IISD by the Asian Development Bank in India<sup>17</sup>.

The World Bank office in Ghana also stated that they had conducted a survey on public finance management reforms in seven African countries and had come to the conclusion that the World Bank models were not suitable for LICs. The World Bank office in Ghana was holding stakeholder consultations to determine the next course of action, and the Ghana Public Procurement Authority was included in these discussions<sup>18</sup>.

Similarly, the Asian Development Bank commented that public finance management reforms were an ongoing process in public financial management and that it should not impede government policies on sustainable procurement<sup>19</sup>.

Both the World Bank and the Asian Development Bank also stressed that environmental and social safeguards were embedded in all lending and direct investment transactions. The banks strongly supported SPP programmes as it provided momentum and moved policy in the same direction<sup>20</sup>.

## Can LICs use First Commercial Procurement to reduce the risks of green innovation for domestic suppliers?

Industrialised countries are using First Commercial Procurement to share risks and provide opportunities to test out prototype technologies, solutions and products. The end objective is to use procurement as an incentive for

<sup>17</sup> Direct Communication, Jas Singh, Head of the Energy Sector Management Assistance Program, World Bank, USA. September 2012. Direct Communication, Anouj Mehta PPP Focal Point (India), Senior Infrastructure Finance Specialist, Asian Development Bank India. September 2012. Direct Communication, Amali Rajapakse, Senior Infrastructure Specialist and Sumith Pilapitiya, Lead Environment Specialist, World Bank, Sri Lanka. September 2012. Direct Communication, Allan Rotman, Lead Procurement Specialist, Public Sector Reform & Capacity Building Unit, (AFTCP), Ghana, Liberia, Sierra Leone, Burkina Faso, Cote d'Ivoire, Benin, Togo, World Bank, Ghana. August 2012.

<sup>18</sup> Same source as in footnote 16.

<sup>19</sup> Same source as in footnote 16.

<sup>20</sup> Same source as in footnote 16.



innovation and to provide better value for money and more sustainable products for the procurer while increasing market opportunities for enterprises. For example, the public purchase of organics foods in Scandinavia began on first commercial procurement tenders issued by municipal governments. Likewise, the procurement of energy efficient lighting and office IT began over 10 years ago on similar contracts, as did the procurement of hybrid vehicles.

Manu LICs are interested to explore using the same model to kick start both SPP and green industrial development, especially when purchasing products that are already part-produced in the domestic economy. The objective in this case would be the same as in industrialised countries – provide market opportunities for domestic companies to invest, innovate and develop sustainable supply chains.

## Moving SPP forward in LICs

There is clearly a case for moving forward SPP in LICs especially given that procurement is a function that all governments do as a matter of course. **Not to do so, would be a missed opportunity.** So would toeing the line with the arguments that public financial management sequencing needs to be completed and multiyear accounting frameworks need to be installed before SPP can be introduced. It will also be a missed opportunity if policy makers don't introduce SPP on the grounds that markets for sustainable goods and service are 'not ripe'. The fact is that markets will begin to respond when the demand is secure and the policy signals are positive.

**This is not to say that supporting SPP and implementing SPP is not challenging. Undoubtedly, public procurement procedures need to be in place, public procurement laws need to be enacted, agencies to regulate public procurement need to be established and a given level of public financial management capacities need to exist.** On the other side of the spectrum, **environmental and decent works laws are needed** to provide SPP programmes with legitimacy. And finally, even a **fledgling private sector is needed** to enable SPP to demonstrate its potential to encourage the growth of domestic green industrial development.

As the global policy debate on SPP gains momentum and more LICs seek assistance on SPP, the sustainable development community needs to respond. LICs are endowed with remarkable resilience and talent. Government institutions are under-funded and lack capacity, but they work through a multitude of policies and SPP is no exception. **Vietnam, Ghana, South Africa, Honduras, Costa Rica, Chile, Tunisia, The Philippines, Indonesia, Malaysia, and Thailand are implementing SPP.** Additional countries that have approached IISD for assistance include Brazil, South Africa, India, and Chile, and in the pipeline are Egypt, Mexico, Honduras, Argentina, The Gambia, Mozambique, Timor-Leste and the g7+ (the country-led global mechanism to monitor, report and draw attention to the unique challenges faced by fragile states).

A part of the SPP challenge is that policy makers and procurers **lack both the opportunity and the skills to follow SPP policies through to implementation stages. One of the reasons for this is that under- capacity and underfunding give rise to hierarchy and management styles that stifle initiative and innovation across middle and lower levels of management.** This increases inefficiency and creates even more opaque public systems, and SPP is amongst the first policies to suffer as a result. In industrialised countries, SPP was pushed forward by few forward-thinking technocrats who were willing to take the risk, understood the power of the public purse and had an appreciation for environmental and social performance. Such individuals are hard to come by in most LICs.

Another challenge is the **lead time required from the time that SPP policies are made public to when early tenders embedding environmental and social dimensions might be launched**. In the Province of the Western Cape South Africa, the green procurement policy was established in 2009, passed as law in 2010, and tenders are being launched in 2012. now. In Sao Paulo, policy design was begun in 1995, and first tenders began in 1999.

Teaching procurers about sustainability performance and demonstrating how they might use the many tools and guidance materials that are available is also far from easy. **Balancing environmental and social performance across specification criteria, award criteria and contract conditions is no easy task, especially if one does not have a real appreciation for how the market might respond and what the range of incremental purchasing costs might be.** Long-term reinforced learning and, indeed, some trial and error is needed to bring about the mindset change that is needed for SPP to be successful.


Efforts to increase private sector eco-efficiency need to be accompanied by enabling policies that would reward front runners and also equalise some of the market distortions that play out further down the supply chain. Companies need to know that the risks they take and the investment they make will payoff in the mediums term, and policies need to signal that this will perhaps be possible. **For SPP, if industrial development policies, foreign direct investment frameworks, business linkages policies, infant industry support, SME and rural enterprise targeting could, for starters, embed environmental and social performance, implementation will be that much easier.** It is well understood that policy making in LICs remains unsophisticated, and governments do not have the fiscal space for subsidies and incentives. But if the direction of interlinked policies could be aligned in favour of sustainability performance, the market signal that it will create to both investors and donors cannot be underestimated.

It is also the case that procurement as a function and procurement as a profession could do with some uplifting. **Procurement as a profession does not enjoy an important image or status. Procurers are often people “in back offices” that are seen to processing requisitions and handling paperwork on decisions made elsewhere. Rather, procurers should be at the forefront, for it is their expertise and vision that could drive industrial innovation in the future.** In the private sector, sustainable supply chain management has increased both the status and the technical expertise of purchasing professionals, but this is still to filter through to the public sector in LICs.

It is also critical to help policy makers in LICs **address the issue of increased purchasing costs and the need to demonstrate value for money**. This paper provided some ways to address this problem, but sometimes, especially during the early days of SPP implementation and when markets for sustainable goods and services are in their infancy, procurers may not be able to purchase sustainable goods/services for the same purchasing price as their non-sustainable alternatives. (SPP proponents will argue that if externalities' are included, sustainable goods will be far cheaper, but the policy space for such accounting is still in the pipeline). Hence, we need to suggest that this cost be considered as the cost of leadership – the cost for governments to live up to their election mandates and trigger equitable and sustainable growth.

SPP in LICs present **huge investment opportunities for all**, especially as LICs seek to 'bundle' their procurement into contracts that present even great opportunities for sustainable economies of scale. For example, in 2012, municipalities in several Indian States are seeking to 'bundle' their energy requirements into service delivery contracts and make the case for energy efficiency improvements on a far larger scale. At IISD, we look forward to working with donors and all other stakeholders to support LICs in their quest to bring SPP from the policy shelf and into the market.



A photograph of a courtyard. In the center, a young tree with green leaves stands on a paved path. To the right, a wall is constructed from stacked stones and a section of woven reeds or bamboo. The background shows more trees under a clear sky.

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